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FISCAL IMPACT STATEMENT

LS 7061 | **NOTE PREPARED:** Apr 11, 2005
BILL NUMBER: HB 1001 | **BILL AMENDED:** Apr 8, 2005

SUBJECT: Budget Bill.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Passed Senate
FIRST SPONSOR: Sen. Meeks

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
X FEDERAL

Summary of Legislation: (Amended) *Biennial Budget:* This bill appropriates money to carry on state government and make various distributions to schools and other political subdivisions.

Professional Standards Board: The bill provides that the Department of Education rather than the Professional Standards Board governs education, licensing, and professional development of teachers. The bill establishes a division within the Department to administer these functions and changes the current Professional Standards Board into an advisory board to advise the State Superintendent of Public Instruction, the State Board of Education, and the Division of Professional Standards. The bill provides that the advisory board has rule-making authority. It also establishes a fund to receive fee revenue. The bill also provides for use of the fund for program administration. It also repeals a redundant section and adds transitional provisions.

Office of Management and Budget: The bill establishes an Office of Management and Budget (OMB). It creates various duties of the OMB and creates the position of OMB director as the state's chief financial officer responsible to the governor and for overseeing, coordinating, and having authority over budgeting, accounting, fiscal management, and spending functions now occurring within the various agencies, departments, and programs of state government. The bill also establishes a Division of Government Efficiency and Financial Planning within the OMB. The OMB will have direct responsibility for the functions of the Budget Agency, the Department of State Revenue, the Department of Local Government Finance, and the Public Finance Office.

Department of Local Government Finance: The bill makes the appointment of a deputy commissioner of the Department of Local Government Finance (DLGF) permissive rather than mandatory.

State Board of Finance: The bill allows the State Board of Finance to transfer appropriations to the Indiana Economic Development Corporation.

Integrated Steel Mill Equipment Property Tax Valuation: The bill also provides that special integrated steel mill equipment property tax valuation applies only if the mill produces steel in a blast furnace in Indiana.

Earned Income Tax Credit Extension: The bill extends the expiration of the Earned Income Tax Credit from December 31, 2005, to December 31, 2011.

Disposal of Surplus Property: The bill allows the Budget Agency to prescribe policies for the disposal of surplus property by the state.

Lake County Income Tax Credit: The bill provides that the Lake County income tax credit for certain homesteads is paid back after the 2002 base year guarantee.

Internal Revenue Code Reference Update: This bill provides that for taxable years beginning after December 31, 2004, references in Indiana law to the Internal Revenue Code (IRC) and related regulations refer to the law and regulations in effect on January 1, 2005. The bill indicates that the law that requires certain bonus depreciation allowed for federal income tax purposes to be added back for state tax purposes applies to the special depreciation allowance for 50% bonus depreciation property. It requires that "Section 179 property" deductions in excess of $25,000 per year that are allowed for federal income tax purposes be added back for state tax purposes. It also requires a taxpayer to add back the amount that the taxpayer deducted for domestic production activities for purposes of the taxpayer's federal income tax. The bill also provides a noncode update to the IRC for taxable years beginning after December 31, 2003, and before January 1, 2005.

Airport Development Zones: The bill grandfathers a resolution regarding airport development zones and allows the airport authority board to determine the portion of tax proceeds that will be allocated to a debt service fund and dedicated to the payment of principal and interest on bonds of the airport authority with the remainder dedicated to the reimbursement of expenditures made for a qualified airport development project.

Child Protection Caseworkers: The bill establishes maximum caseload ratios for child protection caseworkers and requires local child protection services to maintain sufficient staff to comply with the maximum caseload ratios. The bill requires the Division of Family and Children to: (1) report to the Budget Committee and Legislative Council concerning child protection caseworker caseloads every three months; and (2) report to Legislative Council and to the Health Finance Commission concerning education levels and salaries of child protection caseworkers and supervisors of child protection caseworkers.

First Steps Program Provisions: The bill specifies that the state is the payor of last resort and modifies the copayment and monthly maximum benefit under the cost participation plan. The bill eliminates the $3,500 annual maximum under the program and for health insurance coverage for services under the program. The bill also eliminates the discretion to waive a required copayment if the program receives payment from the family's health care coverage. The bill also specifies certain program financial information to be provided to the Budget Committee and the Health Finance Commission before September 1 of each year.

Medicaid Program Provisions: The bill allows the Office of Medicaid Policy and Planning (OMPP) to designate and a recipient to use a mail order pharmacy, an Internet pharmacy, or a pharmacy matching the same price for maintenance drugs. The bill also eliminates chiropractic services for children under 12 unless it is medically necessary and requires OMPP to designate dental services requiring prior authorization. The bill eliminates a limitation on OMPP collecting from the estate of a surviving spouse only the amount in the deceased Medicaid recipient's probate estate and changes the deadline from 30 to 60 days in which OMPP has to foreclose on a lien. The bill repeals the $75,000 limit on OMPP's enforcement of a lien to real property in which a Medicaid recipient has an interest. This bill also changes the community spouse asset calculation and allows OMPP to recover from annuity payments purchased with the assets of a Medicaid recipient or the Medicaid recipient's spouse.

CHOICE Program Provisions: This bill conditions eligibility on having assets of less than $500 ,000, being unable to perform three activities of daily living (instead of two), and first being denied eligibility for Medicaid services. The bill establishes presumptive eligibility for CHOICE services, disallowing participation if Medicaid eligibility is later determined. The bill also would allow individuals unable to perform two activities of daily living to receive temporary services under certain circumstances. The bill provides that rates paid to providers under CHOICE must be established by the Office of the Secretary. (Currently, rates are determined by the regional Area Agencies on Aging (AAA)). The bill also specifies certain CHOICE data that is to be supplied to the Legislative Services Agency before July 15, 2005.

BMV Technology Fund: The bill extends the deposit of $0.50 of the BMV service charge for vehicle registration in the BMV Technology Fund.

Natural Resources Commission: The bill transfers powers to set fees under the natural resources laws to the Natural Resources Commission.

Higher Education Provisions: The bill changes the names of all the campuses of the school of medicine. The bill increases various higher education capital project thresholds with respect to Budget Agency approval and Budget Committee review. The bill also requires the Commission for Higher Education to establish standards for the transfer of courses between state educational institutions. The bill also requires a state educational institution to offer to resident undergraduate students a guaranteed price option under which tuition cannot be increased, with certain exceptions, during two academic years. The bill also provides bonding authority for higher education construction projects and makes various appropriations.

Pension Provisions: The bill provides $30 M per year of Lottery surpluses to the Pension Stabilization Fund (PSF). The bill provides that members of the Teachers' Retirement Fund (TRF) who were members of the Pre-1996 Account, but because of re-employment before July 1, 2005, are in the 1996 Account remain in the 1996 Account. The bill also provides that current Pre-1996 Account members are not to be transferred to the 1996 Account even if they are re-employed or employed by a different school corporation after June 30, 2005. The bill provides for an allocation from the PSF to cover the liability for these members.

The Public Employees' Retirement Fund (PERF) board and the TRF Board (for the Pre-1996 Account) are to set the employer contribution at the actuarial rate using normal cost plus 30-year amortization or a shorter amortization period if requested by the Budget Agency or governor and requires inclusion of the actuarial cost for any cost-of-living increases in determining annual appropriation growth for the Pre-1996 Account.

The bill extends the minimum monthly pension benefit of $180 for certain retired members of PERF to members who retired before December 1, 2004 (instead of December 1, 2003). The bill provides certain retired members of PERF a supplemental "thirteenth check" in 2005 and a cost-of-living adjustment (COLA) in 2006. It also provides a COLA for members, survivors, and beneficiaries of TRF in 2006.

School Finance Provisions: The bill establishes a school funding formula and makes certain other changes concerning education finance. The bill requires a school corporation to use money received as an academic honors diploma award for expenditures directly related to the school corporation's academic honors diploma program and program for high ability students. It also repeals obsolete provisions and a provision limiting charter school funding. The bill combines several categorical grants into a distribution for discretionary spending. It also allows nonpublic schools accredited by DOE to receive up to 5% of the distribution.

The bill transfers a referendum tax levy imposed by the Lafayette Community School Corporation as the result of a referendum conducted in 1986 from the general fund to the referendum tax levy fund and reduces the Lafayette Community School Corporation's prior year revenue by the amount of the transferred levy for the purposes of calculating tuition support and general fund property taxes in 2006.

The bill allows a school corporation obligated to repay a loan extended under IC 6-1.1-28.1 to make loan payments from the school corporation's debt service fund. It also allows schools to levy a property tax to pay unreimbursed textbook costs for students eligible for a free or reduced lunch.

Senior Judge Per Diem: The bill increases from $100 to $200 the maximum amount of per diem a senior judge may receive after serving the first 30 days of service in a year.

Abandoned Property Fund: This bill transfers abandoned property proceeds and the Abandoned Property Fund balance over $500,000 to the state General Fund instead of the Common School Fund.

PTRC/Homestead Credit Provisions: Under the bill, the total appropriation for Property Tax Replacement Credit (PTRC) and Homestead Credits are capped in FY 2006 and FY 2007. This bill also requires the state Budget Agency to make early payments of tuition support and PTRC/homestead credits in order to reduce the payment delay balances by 50% over the biennium. If there are insufficient balances to fund payments equal to 50% of the delay balance, the Budget Agency may reduce the percentage that is to be repaid under this provision.

Local Homestead Credit Option: This bill provides a local homestead credit option for political subdivisions.

PTRC Intercept Provisions: The bill also provides that after June 30, 2005, the state may intercept PTRC distributions to pay the amount owed if a county fails to pay within six months after being billed. It provides a 4-year repayment schedule for amounts owed as of June 30, 2005. The bill also provides for quarterly (versus semi-annual) billings by the state for incarcerating juveniles and makes the rate $60 per day.

New Courts and Magistrates: This bill adds a superior court in Vigo County and a magistrate in Madison and Perry Counties.

State Examiner: The bill provides that the State Examiner and the State Board of Account deputies serve at the Governor's pleasure.

Effective Date: July 1, 2004 (retroactive); January 1, 2005 (retroactive); Upon passage; July 1, 2005.

Explanation of State Expenditures: *Biennial Budget -* This bill establishes the state budget appropriations for FY 2006 and FY 2007. Total General Fund and Property Tax Replacement Fund appropriations are $11,865.3 M for FY 2006 (a 5.1% increase over FY 2005) and $12,032.3 M for FY 2007 (a 1.4% increase over FY 2006).

Of this amount, total operating appropriations are $11,641.8 M for FY 2006 (a 4.9% increase over FY 2005) and $11,808.8 M for FY 2007 (a 1.4% increase over FY 2006). Appropriations for capital projects represent $446.9 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

General Fund and Property Tax Replacement Fund: FY 2006-FY 2007.			
Functional Category	**FY 2006**	**FY 2007**	**% Change**
General Government	369,293,993	371,293,326	0.5%
Corrections	623,820,843	624,102,731	0.0%
Other Public Safety	93,850,461	93,648,483	-0.2%
Conservation and Environment	85,317,632	85,358,398	0.0%
Economic Development	41,438,560	41,445,534	0.0%
Transportation ***	0	0	
Mental Health	250,471,632	250,539,066	0.0%
Public Health	74,600,245	74,638,707	0.1%
Medicaid	1,455,253,790	1,525,157,653	4.8%
Family and Children	186,013,699	186,020,057	0.0%
Social Services and Veterans	325,007,692	349,160,296	7.4%
Higher Education	1,540,838,793	1,583,355,622	2.8%
Education Administration	49,380,428	50,879,510	3.0%
Tuition Support - General Fund	2,102,779,408	2,100,046,075	-0.1%
Tuition Support - PTR Funds	1,654,903,925	1,652,170,592	-0.2%
Social Security - Teachers	2,403,792	2,403,792	0.0%
Teachers Retirement	552,827,438	585,997,084	6.0%
Other Local Schools	193,856,689	192,857,037	-0.5%
Other Education	11,247,370	11,250,403	0.0%
PTR and Homestead Credits	2,028,509,197	2,028,509,197	0.0%
Distributions - General Fund	0	0	
Subtotal - Operating	11,641,815,587	11,808,833,563	1.4%
Higher Education Construction	28,721,437	28,721,437	0.0%
Other Construction	194,743,844	194,743,826	0.0%
Subtotal - Capital Projects	223,465,281	223,465,263	0.0%
Grand Total	11,865,280,868	12,032,298,826	1.4%

* Appropriations “for the biennium are apportioned 50% for each fiscal year.
** The appropriations in this table represent only those appropriations provided in HB1001-2005.
*** All appropriations for this functional category are from dedicated funds.

Appropriations from dedicated and federal funds for the biennium are presented in the following table.

Dedicated and Federal Appropriations: FY 2006 -FY 2007.			
Functional Category	**FY 2006**	**FY 2007**	**% Change**
BIF & Lottery /Gaming Surplus	4,750,001	4,750,001	0.0%
Other Dedicated - Operating	1,171,049,729	1,163,142,575	(0.7)%
Other Dedicated - Construction	24,624,307	24,624,305	0.0%
Tobacco Settlement	194,260,368	198,177,879	2.0%
Federal Funds	639,522,452	639,522,452	0.0%
Total Dedicated	2,034,206,857	2,030,217,212	(0.2)%

Tobacco Master Settlement Agreement Fund Appropriations:

Appropriation Name	FY 2006	FY 2007
Attorney General	250,000	250,000
Value Added Research Program	600,000	600,000
Rural Development Administration	2,400,000	2,400,000
Rural Development Council	1,203,480	1,203,483
21st Century Research & Technology Fund	37,500,000	37,500,000
Technology Development Grant Program	4,500,000	4,500,000
Commission on Latino/Hispanic Affairs	124,188	124,235
IN Prescription Drug Program	8,000,000	8,000,139
Children's Health Insurance Program	29,935,718	33,835,718
DDARS Administration	3,012,462	3,012,462
Residential Services - Case Management	2,050,626	2,050,626
Residential Services for DD Persons	22,300,000	22,300,000
State Department of Health	27,325,612	27,341,425
Cancer Registry	253,651	253,803
Minority Health Initiative	2,091,224	2,091,224
Sickle Cell	232,500	232,500
Aid to County Tuberculosis Hospitals	107,397	107,397
AIDS Education	699,804	700,099

Appropriation Name	FY 2006	FY 2007
HIV/AIDS Services	2,325,004	2,325,004
Test for Drug Afflicted Babies	62,496	62,496
State Chronic Diseases	544,847	544,917
Women, Infants, & Children Supplement	176,700	176,700
Maternal & Child Health Supplement	176,700	176,700
Cancer Education & Dx - Breast Cancer	93,000	93,000
Cancer Education & Dx - Prostate Cancer	93,000	93,000
Minority Epidemiology	500,000	500,000
Community Health Centers	15,003,071	15,003,197
Community Mental Health Centers	2,000,000	2,000,000
Independent Living Transitional Services	1,000,000	1,000,000
Tobacco Health Programs	2,461,400	2,461,400
Prenatal Substance Use & Prevention	150,000	150,000
Local Health Maintenance Fund	3,860,000	3,860,000
Local Health Department Account	3,000,000	3,000,000
Tobacco Use Prevention& Cessation Program	10,858,441	10,859,308
Regional Healthcare Construction Account	9,369,047	9,369,046
Total Tobacco Funds Appropriated	**194,260,368**	**198,177,879**

Tobacco Master Settlement Agreement Fund	FY 2005	FY 2006	FY 2007
Beginning Balance, July 1	$ 238.1 M	$ 150.6 M	$ 90.8 M
* Plus: Estimated Revenue, April 10.	$ 132.4 M	$ 134.5 M	$ 136.5 M
Less: Appropriations	$ 173.4 M	$ 194.3 M	$ 198.2 M
Less: Prior Year Carryover Appropriations	$ 46.5 M	$0	$0
Ending Balance, June 30	$ 150.6 M	$ 90.8 M	$ 29.1 M

* Estimated revenue includes the additional dollars known to be associated with the Vibo entry to the Master Settlement Agreement.

Professional Standards Board: Summary: The impact to state expenditures is expected to be minimal and will depend on the administrative actions taken by the Department of Education (DOE).

Under the bill the following would be transferred from the Professional Standards Board to the Department: all real and personal property of the Board; all powers, duties, assets, and liabilities of the Board; and all appropriations to the Board.

The General Assembly appropriated $6.8 M to the Professional Standards Board for administration and programs and $443,900 for teacher licensing in FY 2005. For FY 2005, the Board had 41 funded positions: 39 full-time, one temporary, and one intermittent. As of November 2004, the Board had 34 filled positions. Of these positions, 30 employees were full-time and 4 were on leave.

The bill would allow the 19 members of the Professional Standards Board to be transferred into the Advisory Board for the Division of Professional Standards within the DOE. The members of the Advisory Board would receive the same per diem, travel reimbursement, and payment for services rendered in relation to direct duties to the Advisory Board. Under the bill, the Superintendent of Public Instruction would appoint the director of the Advisory Board. The Advisory Board would be given rule-making authority (with the approval of the Superintendent of Public Instruction) to set standards for teacher licensing and the administration of a professional licensing and certification process.

The bill would also establish the Division of Professional Standards within the DOE. The Division would essentially assume the duties of the Professional Standards Board.

The bill creates the Professional Standards Fund, which would consist of fee revenue. The fund would be administered by the DOE. Money in the fund would not revert to the state General Fund at the end of the state fiscal year. The DOE would use the fund revenue for the administrative expenses to carry out the provisions of the bill.

The Professional Standards Board was established by P.L. 46-1992 to train, license, and professionally develop teachers, school superintendents, and school psychologists. The Board also holds hearings and has the power to revoke the license of a licensed individual. Prior to 1992, the State Board of Education via the Department held the responsibility for licensing of teachers.

<u>Office of Management and Budget:</u> The bill establishes an Office of Management and Budget. The bill also establishes a Division of Government Efficiency and Financial Planning within the OMB. The OMB will have direct responsibility for the functions of the Budget Agency, the Department of State Revenue, the Department of Local Government Finance, and the Public Finance Office. The bill appropriates $1.007 M for FY 2006 and $1.008 M for FY 2007 for the OMB.

<u>Department of Local Government Finance:</u> Under current law, the Commissioner of the DLGF is required to appoint a deputy commissioner. Under this bill, the appointment would be optional.

<u>State Board of Finance:</u> This bill gives the State Board of Finance specific authority to transfer funds to the Indiana Economic Development Corporation. This allows the Board to legally transfer funds to the Corporation as an instrumentality of the state.

<u>Earned Income Tax Credit (EITC) Extension:</u> The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the 6% EITC could potentially total about $8.0 M to $10.0 M annually. This is based

on a simulation utilizing state taxpayer data and federal Earned Income Credit (EIC) data.

Disposal of Surplus Property: The provisions of the bill relating to disposal of surplus property will result in an indeterminable savings to state agencies. These provisions will have an administrative cost impact on the Budget Agency. It is presumed that the Budget Agency will be able to implement the provisions of the bill with existing staff and resources.

The bill provides that the Budget Agency may adopt policies and procedures for the disposal of surplus property by state agencies. The bill allows the policies to specify the circumstances under which and the manner in which property will be offered for sale to another governmental entity before offered to the public. The bill also requires the head of the agency transferring the property to first request to the Budget Agency, in writing, that the Governor approve the transfer of the property. Any savings realized from these provisions will ultimately depend upon the actions of the Budget Agency. The savings will depend on the extent the Budget Agency is able to develop procedures that allow easier disposal and sale of surplus property. Savings may also be realized if the policies adopted by the Budget Agency encourage agencies to look first to utilize surplus property instead of making new purchases.

Child Protection Caseworkers: Caseworker Data Reports: The bill requires the Division of Family and Children (DFC) to submit a report to the Legislative Council and Budget Committee every three months that provides data and statistical information regarding caseload for each county for child protection caseworkers, child welfare caseworkers, and other caseworkers. Currently, DFC is required to submit the report every six months. The bill also requires DFC to submit a report to the Legislative Council and the Health Finance Commission that contains statistics concerning the education levels and salaries of all child protection caseworkers, child welfare caseworkers, and supervisors. It is assumed that DFC should be able to the reporting requirements within existing budget levels.

Child Welfare Caseload Standards Summary: This bill requires that a child protection caseworker or a child welfare caseworker not be assigned a caseload that exceeds: (1) for caseworkers assigned only initial assessments, 12 active cases per month, (2) for caseworkers assigned only ongoing cases, 17 active children per caseworker, or (3) for caseworkers assigned a combination of initial assessments and ongoing cases, 4 investigations and 10 active ongoing cases per caseworker. The bill allows for a phase-in period and is to be fully implemented by June 30, 2008.

The cost for full implementation that would achieve these caseload standards, which includes equipment and office space for an estimated 880 new caseworkers and 106 new supervisors, would be approximately $41.7 M in the first year of full implementation and $35.6 M in subsequent years. These numbers are based on the assumption that caseworkers would hold a maximum of 12 investigation cases <u>or</u> 17 ongoing cases at any one time. If actual work assignments fall under the more restrictive maximum caseload combinations, costs would be greater.

Training: It should be noted that training costs are not included in the overall expenditure estimates for the new caseworkers or supervisors. FSSA recently implemented a new training program for new staff. Average costs have not been established at this time, and the total cost for training new employees is currently unknown.

Background Information - Current Numbers: Indiana currently employs 861 child welfare caseworkers, however, 60 of these persons are considered “just-in-time workers. The state has created 60 “just-in-time positions to fill slots throughout the state when vacancies arise. These workers would have already completed training prior to the position opening up and are able to begin work immediately. Indiana also employs approximately 130 child welfare supervisors. Under the Bayh administration, a court agreement was reached which prohibited Marion County child protective services from raising worker caseloads above 35. FSSA has extended this agreement statewide, however, caseload numbers vary across the state. FSSA reports that each ongoing case represents one child.

First Steps Program Provisions: Elimination of the $3,500 Insurance Billing Cap: This provision would eliminate an existing $3,500 insurance billing cap for covered early intervention services. A provision remains that exempts First Steps billed services from lifetime or aggregate limits under the health benefit plan. The bill also specifies that the state is the payor of last resort under the First Steps Program. The fiscal impact of these provisions is dependent upon the number of individuals with health insurance coverage who had billed services that exceeded the cap. An additional impact may result if any First Steps families are also state or local government employees. The health insurance benefit expenditures for these units could increase, depending upon whether First Steps billed claims increase as a result of this provision. At this time, no information has been reported on the number of families that may have reached or exceeded the $3,500 cap. Anecdotal evidence indicates that the program may not have been routinely billing services to insurance carriers.

Revisions to the First Steps Co-Payment Schedule: This provision would extend and modify the copayment schedule to require copayments from more individuals that receive services. The modified schedule would provide for a copayment cap per family, regardless of the number of participating children. FSSA has estimated that collections of copayments for the 2005 fiscal year will be approximately $725,730. Anecdotal evidence indicates the program administration may not have been routinely pursuing the payment of required copayments. Increases in collections of copayments may increase as a result of enhanced efforts to collect from families as well as from the revised copayment schedule. Sufficient data to determine the impact of the two factors has not been reported.

Financial Data Reporting Requirement: The bill requires the Budget Agency to annually report information to the Health Finance Commission on the expenditures of the First Steps Program by state and federal funding sources, including Medicaid, TANF, CHIP, and any other funding sources for direct services and administrative expenses.

Medicaid Program Provisions: Community Spouse Income and Asset Limitations: This provision specifies how allowable assets and income are to be determined for an institutionalized spouse when the other spouse remains in the community. This provision brings the state program into compliance with federal law. The fiscal impact will be dependent upon the extent to which the Office of Medicaid Policy and Planning (OMPP) is currently following the federal requirements.

Mail-Order/Internet Pharmacy Designation: This provision would allow OMPP to designate a mail-order pharmacy or Internet pharmacy from which a Medicaid recipient may obtain a maintenance drug. Any potential savings would be dependent on administrative actions.

Background: Medicaid pays for drugs on a defined formula using the lowest cost of several factors. The most commonly quoted is "AWP less 13.5%." If mail-order or Internet-based pharmacies charge less than that amount, the state could anticipate some savings in the cost of drugs. Without a revision of the payment rules, Medicaid may pay the same amount for drugs from an Internet pharmacy as from a local provider. If drugs used for chronic conditions are supplied on a 90-day or greater basis, there may be savings realized by avoidance of dispensing fees. Currently, Medicaid pays a $4.90 dispensing fee for prescriptions, with some limitations. Commercial carriers encourage the use of mail-order or Internet pharmacies by limiting the copayments required of their insureds. This provision does not address how the dispensing fees or required copayments might be addressed.

Medicaid Recoveries - Liens: The bill would eliminate a limitation on the ability of the Office to collect from the estate of a surviving spouse only in the amount of the deceased Medicaid recipient's probate estate. The Office estimates that increased estate recoveries could have an annual fiscal impact of $2 M (federal share of approximately $1.24 M and a state share of $752,000). Medicaid recipients who are married at the time of death are not subject to estate recovery. OMPP reports that in most cases, the estate of a surviving spouse is exempt from estate recovery as well unless the estate of the predeceased spouse was probated.

The bill also repeals an existing section of code that limits the Office's enforcement of a lien to real property in which a Medicaid recipient has an interest value of at least $75,000. The bill also changes from 30 to 60 days the deadline in which OMPP has to foreclose on a lien. OMPP estimates the annual fiscal impact of the elimination of the $75,000 lien exemption on the real estate assets of recipients to be approximately $2.87 M ($1.77 M in federal funds and $1.1 M in state funds).

Recoveries from Annuity Payments: The bill would allow the Office to recover from annuity payments purchased with the assets of a Medicaid recipient or the Medicaid recipient's spouse. OMPP estimates that this provision could result in annual recoveries of $750,000 (federal share of $467,400 and $282,600 in state funds). Recoveries may decline over time as applicants attempt to shelter assets elsewhere.

Adult Dental Benefits: The bill requires OMPP to apply to amend the state Medicaid Plan for approval to specify the dental services provided to individuals over age 21 that will be covered under the State Plan without prior authorization. The bill would require prior authorization for services that aren't specified. OMPP reports show that total dental claims paid in FY 2004 were $115 M. This total includes services to adults of about $42.3 M, or $16.1 M in state General Funds. The savings to the state would be some portion of the $16.1 M in state General Funds that was expended, depending upon the specific services eliminated. The current dental benefit for recipients 21 years of age and older is limited to $600 per recipient per 12-month period. 405 IAC 5-14-1 further states that the procedure codes that will be included within the limitation will be listed and published in a provider bulletin. The $600 per recipient limit precedes all other limits in the rule. The Office has the ability through rules to reduce the benefit available to a lower dollar amount as well.

Limitation on Chiropractic Benefits: The bill would require OMPP to apply to amend the state Medicaid Plan to eliminate chiropractic services for children under 12 years of age unless a physician determines that the chiropractic service is medically necessary. OMPP reports show that total chiropractic claims paid in FY 2004 was $2.8 M, with about $1.1 M representing state share. Limiting chiropractic services provided to children under age 12 would result in unknown savings of some portion of the $863,000 of chiropractic services provided to children under age 19, or $328,000 in state General Funds. In addition, chiropractic services provided to participants in the risk-based managed care program would be affected to the extent that the capitated rates may decline depending upon how the provision of these services affects the annual rates. Another factor to consider is that access to chiropractic services is on a self-referral basis in PCCM and risk-based managed care. The OMPP or the MCOs must pay for any services the child receives regardless of medical necessity. Physical therapy services may only be accessed by way of a medical referral and can be managed by the PCCM and the MCO so that the child gets access to only medically necessary treatment.

CHOICE Program Provisions: Requirement for Medicaid Eligibility Denial: The fiscal impact of this provision is dependent on the number of individuals receiving CHOICE services who would meet the financial and level-of-care eligibility standards for the Medicaid waiver. The requirement that an individual first be denied Medicaid eligibility would require that all recipients complete the Medicaid application process. This would require eligibility determinations by the local Offices of Family and Children. Any CHOICE recipients found to be Medicaid-eligible would qualify for all Medicaid State Plan services and could be moved to Aged and Disabled waiver slots if they are available. CHOICE recipients who do not meet the Medicaid level-of-care requirement of being deficient in at least three activities of daily living may qualify for temporary home- and community-based services if certain specified conditions are met. The bill does not address how the Medicaid waiver slots would be funded or if CHOICE dollars could be used to provide the state share of the waiver services and the State Plan services.

Background on Medicaid-Eligible CHOICE Recipients: The State Budget Agency reports that Illinois implemented a similar proposal and found that 20% of their program population was eligible for Medicaid. However, the comparability of the state-operated programs is unknown, as is the Illinois financial eligibility standards for their waiver programs. Without additional information, any estimated cost savings are uncertain. However, such a requirement would allow FSSA to assess the financial need with regard to income and assets of the CHOICE Program recipients, providing information with regard to the fiscal impact of expanding the Medicaid waiver eligibility limits to the SEA 493-2003 required level of 300% of SSI. A potential outcome could be the increase in recipients receiving Medicaid State Plan services as well as waiver services. The Division has been actively moving eligible individuals from CHOICE to the Medicaid waiver in the last year. However, there is no data available to determine how many individuals remaining on the CHOICE program would meet the financial eligibility for Medicaid but not the level-of-care requirements for Medicaid waiver services. These individuals would be eligible for State Plan services, such as prescription drug coverage, but would not qualify for Medicaid home- and community-based waiver services since they would not meet the nursing facility level-of-care requirement.

Higher Level-of-Care Standard for Choice Eligibility: This provision would require CHOICE recipients meet the same level-of-care standard required for nursing facility admission and Medicaid home- and community-based waiver services. Current statute requires that clients have deficiencies in two or more activities of daily living (ADLs). This provision would require CHOICE recipients have deficiencies in three or more ADLs unless certain temporary conditions are met. Depending on legislative and administrative actions, this provision could decrease expenditures or allow for individuals on the waiting list for CHOICE services that have higher level-of-care needs to receive services necessary to avoid nursing facility admission.

Background on Level of Care: Staff in the Division of Disabilities, Aging, and Rehabilitative Services (DDARS) believes that approximately 23% of the CHOICE clients do not meet the nursing facility level of care. The DDARS reports that approximately 10,564 individuals received CHOICE services in FY 2004. This means that potentially 2,431 individuals or more would be eliminated from the program as a result of this provision. These would be individuals that would not qualify medically for the Medicaid Waiver program, regardless of financial need. If this assumption is accurate, and the average annual cost of CHOICE clients remains at the FY 2004 level, this provision could result in savings of approximately $7.6 M.

Asset Limitation for CHOICE program: This provision would limit eligibility for the CHOICE program to persons with assets of $500,000 or less. Potential savings that may be attributable to this provision would be dependent on administrative actions regarding the definition of countable assets and the level of assets available to current recipients.

Background on Asset Limitation: Currently, in the Medicaid program where the level of assets available to an applicant is applied, countable assets do not include an applicant's home and a defined value for a car and other items such as burial trusts. There is currently no asset limitation with regard to eligibility for CHOICE services. No data is known to be collected that would allow a determination of the number of individuals receiving CHOICE services that may lose eligibility as a result of this provision.

Standardizing CHOICE Reimbursement Rates: This provision requires FSSA to set the reimbursement rates for the CHOICE program. Currently, local Area Agencies on Aging (AAA) set the CHOICE rates and as a result, the rates differ by AAA region. The fiscal impact of this provision would vary by AAA region. Currently, some of the AAAs are reported to reimburse at Medicaid waiver rates, which are statewide rates. Some level of savings would be anticipated as a result of standardizing the rates depending on administrative actions taken.

Background on Equalizing Rates: In 2003, a comparison was prepared of the individual AAAs' locally negotiated CHOICE rates for specific common services. A comparison of the variation in CHOICE rates for three of the most commonly provided services is presented below.

	Low CHOICE Rate	High CHOICE Rate
Skilled Nursing	$ 22.50	$115.00
Homemaker	$ 9.50	$ 20.00
Home Health Aide	$ 8.23	$ 25.00

Provision of CHOICE data: This provision requires the Secretary of Family and Social Services to provide specified data concerning the individuals participating in the CHOICE program to the Legislative Services Agency in an electronic format no later than July 1, 2005. The Legislative Services Agency is required to report on the compliance of the information provided to that specified in the bill to the Health Finance Commission and the Budget Committee no later than September 1, 2005.

Higher Education Provisions: Higher Education Commission Courses: The Higher Education Commission is required to establish a statewide core transfer library of at least 70 courses that have transfer equivalents on all campuses. The Commission also is to establish at least 12 degree programs for which articulation agreements apply to any Ivy Tech State College campus and to Vincennes University. The library and degree programs can likely be developed within the Commission's current budget.

Higher Education Tuition: State colleges and universities would be required to set tuition and fees for a two-year period after the state budget is passed. The universities would be required to have public hearings and the rate could only be changed is the appropriations were reduced or withheld. The change would have no state impact. The impact on universities would depend on how they estimate their tuition increase over the two-year period. If tuition grows faster than estimated, then they could lose revenue, and if it grows slower than estimated, then a university may experience a net gain.

Bonding Authority: The bill authorizes universities to issue the following bonds.

Institution	Project	Authority
Indiana University-South Bend	Education and Arts Building Renovation	$25,750,000
Ivy Tech - Valparaiso	New Campus - Phase II	$20,000,000
Ivy Tech - Madison	Main Campus Expansion	$19,144,000
Ivy Tech - Madison	New Campus	$17,615,000
University of Southern Indiana	Education/Science Building, Complete SOB/GCB A&E, and Plant Expansion	$6,600,000
Indiana State University	University Hall Renovation	$26,880,000
University of Southern Indiana	Recreation and Fitness Center Expansion Phase I and II (ineligible for fee replacement)	$7,250,000
Indiana University-Bloomington	Central Heating Plant Renovation Phase I	$45,000,000
Purdue University-West Lafayette	Infrastructure and Utilities Improvement	$43,600,000
Ball State University	Boiler Plant Rep and Chilled Water Imp	$48,000,000
Total		$259,839,000

The annual fee replacement payment on the eligible bonds over 20 years at an interest rate of 5% would be about $20.3 M when all the bonds are issued.

Capital Projects Threshold: The bill changes the dollar amount of projects requiring review by the Higher Education Commission and approval by the Governor upon recommendation by the Budget Agency. The following are the current and new limits.

	Current Limit	**New Limit**
Construct Buildings and Facilities	$200,000	$500,000
Purchase or Lease Purchase Land, Buildings, or Facilities	$100,000	$250,000
Repair and Rehabilitation Projects	$500,000	$750,000
Lease Building or Facility	$50,000	$150,000

The increase may reduce administrative cost since they would not require review by the Higher Education Commission and the Budget Agency and the approval by the Governor.

School of Medicine Names: The name changes should have minor if any fiscal impact.

<u>*Pension Provisions:*</u> The bill provides for a minimum employer-financed pension of $180 per month for members with at least 10 years of service who retired on or before December 1, 2003. The minimum pension would first be paid after December 31, 2003 (one month later). This is to also include members retiring on or

before December 1, 2004. The bill also provides certain retired members of PERF a supplemental "thirteenth check" in 2005 and a cost-of-living adjustment (COLA) in 2006.

Summary of State Fiscal Impact for PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be $5 monthly. Current statute has no provision for a COLA in 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $19.7 M. This represents an additional annual cost of about $1.52 M (about $760,000 for FY 2006 and $1.52 M in fiscal years thereafter, representing approximately 0.11% of payroll).

Summary of State Budget Impact for PERF COLA: Although a COLA for 2006 is not provided in current statute, PERF calculates the contribution requirement for the state *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact from the 2006 adjustment provided in this bill under the contribution rate that is calculated is estimated to result in a reduced unfunded accrued liability of $2.3 M. This would result in a reduced annual funding requirement of about $180,000 (about $90,000 for FY 2006 and $180,000 in years thereafter, representing approximately 0.01% of payroll).

[Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

Summary of Fiscal Impact of 13th Check Provision: This bill also provides for a 13th check to be paid on or before December 1, 2005, to any member (or survivor or beneficiary) who retired before January 1, 2005, and was entitled to receive a monthly benefit on November 1, 2005. The amount is to be equal to 12 times the monthly pension portion times 2% if retirement was prior to 1990, or 1% if the retirement occurred from 1990 through 1994. This benefit is available only to PERF members and does not become part of the base for pension calculations.

The estimated increase in unfunded accrued liability for FY 2006 is $1.6 M due to the 13th check provision. The increase in annual funding required is $120,000, representing 0.01% of payroll. This impact is in addition to the state fiscal impact for the COLA described above.

All estimates are based on the July 1, 2003, PERF actuarial valuation. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

TRF COLA:. The bill also provides a one-time permanent COLA adjustment to eligible retired members effective January 1, 2006. The amount of the COLA, as a percent of the pension portion of a member's total benefit (including past post-retirement increases), will be as follows:

- 2.0% for members retired before July 2, 1990.
- 1.0% for members retired after July 1, 1990, and before July 2, 2003.
- 0% for members retired after July 1, 2003.

The COLA adjustments effective January 1, 2005, (pursuant to IC 5-10.2-5-37) were taken into account prior to estimating the fiscal impact of this COLA adjustment. It was assumed that no other COLA adjustments would be implemented prior to the proposed COLA effective January 1, 2006.

TRF COLA Unfunded Accrued Actuarial Liability (UAAL) and Benefit Payouts				
	Increase in UAAL	**Estimated Increase in Projected Benefit Payments**		
	As of 6/30/2004	**FY 2006**	**FY 2007**	**FY 2008**
Closed Plan	$44,317,851	$2,883,089	$5,582,142	$5,396,392
New Plan	1,116,923	62,297	121,670	121,670
Total (Both Plans)	$45,434,774	$2,945,386	$5,703,812	$5,518,062

The fund affected is the state General Fund for the Closed Plan.

Other Pension Provisions: The bill eliminates member transfers, after July 1, 2005, from the Pre-1996 Plan (or Old Plan, funded by the state on a pay-as-you-go basis) to the 1996 Plan (or New Plan, pre-funded by school corporation contributions). The bill provides that members of TRF who were members of the Old Plan remain in the Old Plan even if they are re-employed or employed by a different school corporation after June 30, 2005. (Under current practice, the pension liabilities of Old Plan members who are re-employed or employed by a different school corporation are transferred to the New Plan.)

The bill also allows for a transfer from the Pension Stabilization Fund (PSF) of an amount equal to the liability of any members who were transferred from the Old Plan to the New Plan because of re-employment or employment by a different school corporation. Based on the July 1, 2004, valuation report, the total accrued actuarial liability for the transferred individuals was estimated at about $683 M. This provision returns the New Plan to being 100% actuarially funded, represents a shift in unfunded liability from the school corporation-funded New Plan to the state-funded Old Plan, and eliminates the annual contributions from school employers toward the unfunded liability that had accumulated for these individuals prior to their transfer to the New Plan.

The bill also reestablishes the transfer of $30 M per year of Lottery surpluses to the PSF, removes all language allowing for additional quarterly contributions as needed to maintain the unfunded liability as a percent of payroll for the New Plan, removes certain restrictions on the use of the $30 M deposits, and allows for the deposits to be made directly into the PSF. According to TRF actuaries, these changes provide deposits at least as large as those in the existing statute and are made to bring state law into compliance with current practice. As such, the provisions should have no financial impact on the TRF.

The PERF Board and the TRF Board (for the Pre-1996 Account) are to set the employer contribution at the actuarial rate using normal cost plus 30-year amortization or a shorter amortization period if requested by the Budget Agency or Governor and requires inclusion of the actuarial cost for any cost-of-living increases in determining annual appropriation growth for the Pre-1996 Account. The bill limits the amortization period used to 30 years (previously 35 years as of June 30, 2004). This will allow the actuarial funding requirements to match the accounting requirements of the Governmental Accounting Standard Board. According to the fund actuaries, this change can potentially improve the financial condition of the TRF. The long-term impact of this change would depend on administrative actions.

School Finance Provisions: Primetime: The bill changes the primetime calculation for CY 2005. Under current law if the complexity index is greater than 0.2, then the calculations are based on a class size of 15 to 1. Since the value of the complexity index is between 1 and 2, every school is funded at a class size of 15 to 1 (instead of 15 to 1 for schools with a high index and 18 to 1 for schools with a low index). The change reduces the primetime distribution by about $16.8 M.

Complexity Index: The 2005 school formula refers to the Census data of adults over age 20 without a high school education. The Census data only has information on the number of adults over age 25 without a high school education. The change should have no fiscal impact. The complexity index for CY 2006 and CY 2007 is similar to the index for CY 2005 with two exceptions. The dollar amounts of the weights were increased by 5%, and the second tier calculations were modified.

General School Formula: The bill authorizes the transfer of $20 M from account 6000/168900 to the state General Fund to fund the tuition support deficiency for FY 2005. The school formula is a reward-for-effort formula that moves schools to a foundation amount, $4,475 in CY 2006 and $4,520 in CY 2007 multiplied by a school's complexity index, over six years. The dollar amount is then multiplied by a school's adjusted ADM to determine a school's regular program funding. The adjusted ADM is the greater of a 5-year average of the school's ADM or 75% of the growth in ADM from the prior year. The formula also has a maximum decrease in the funding of regular programs of 1% per ADM from year to year. The funding for the categorical programs, except the Honors Grant, were straight-lined at the CY 2005 level. The Honors Grant was decreased from $930 per student to $900. The bill increases the CY 2005 cap from $3,721,000,000 to $3,758,400,000.

The following chart shows the estimated school formula distribution for schools.

	CY 2005	CY 2006	% Inc	CY 2007	% Inc
State Funding					
School Formula	$3,760,079,830	$3,754,288,490	(0.02)%	$3,749,210,321	(0.10)%
PTRC	$1,257,159,430	$1,308,384,744	4.10%	$1,360,352,280	4.00%
Total	$5,017,239,260	$5,062,673,234	0.90%	$5,109,562,601	0.90%
School Formula					
State Regular	$3,083,569,613	$3,099,653,732	(0.50)%	$3,077,235,299	(0.70)%
Gross Max Levy	$1,910,854,980	$1,989,476,803	4.10%	$2,069,403,794	4.00%
Prior Year Auto & FIT	$216,433,646	$213,093,082	(1.50)%	$213,714,987	0.30%
Growing Enrollment	$13,423,630	$0		$0	
Remediation	$28,334,708	$0		$0	
Total Regular	$5,252,616,577	$5,302,223,617	0.10%	$5,360,354,080	0.00%
Categorical Funding					
Special Ed	$424,468,882	$440,492,493	3.80%	$452,950,825	2.80%
Vocational Ed	$71,691,800	$74,369,500	3.70%	$77,123,575	3.70%
Prime Time	$122,914,520	$124,360,571	1.20%	$125,661,783	1.00%
Honors	$15,676,677	$15,412,194	(1.70)%	$16,238,839	5.40%
Total (Reg. + Cat.)	$5,887,368,456	$5,956,858,375	1.20%	$6,032,329,102	1.30%

Senior Judge Per Diem: Any added costs to state expenditures will depend on how frequently the trial courts and courts of appeal request senior judges, the number of senior judges available, and the amount budgeted for the judicial payroll. The state Supreme Court has the statutory power to adjust the per diem rate if the payroll account is insufficient to pay the per diem. Consequently, the expenditures could be minimal. The per diem costs are paid from the budget of the Supreme Court. If the Supreme Court makes no adjustments to senior judge per diem from that provided in the bill, the minimum amount of added expenditures could range between $142,000 and $196,000, based on experiences of senior judges between 1999 and 2003.

Background Information on Senior Judge Per Diem: Senior judges are individuals who have formerly served as trial court judges in Indiana. They are certified by the Indiana Judicial Nominating Commission and may be appointed if requested by a trial court to assist in a certain number of cases.

A senior judge is entitled to the following compensation:

- $50 per day for the first 30 days of service in a calendar year;
- $100 per day from the 31st day up to a maximum of 100 calendar days. This bill would increase this amount to $200 per day.

Senior judges also receive reimbursement for mileage and reasonable expenses incurred in performing service as a senior judge, including but not limited to meals and lodging. Senior judges can serve a maximum of 100 days.

Senior judges are also eligible for health insurance pursuant to the provisions of Administrative Rule 5(B)(8) and as authorized by statute (IC 33-23). When a senior judge serves for 30 days, the judge is considered to be an employee under the state employment statutes and consequently would qualify for benefits.

The Division of State Court Administration reports the following statistics.

Calendar Year	Sr. Judges Available	Requests for Appointment	Days Worked	Per Diem for Sr. Judges	Benefits Paid[1]	Total Senior Judge Cost
1999	66	N/A	3,450	N/A	N/A	N/A
2000	71	N/A	3,531	N/A	N/A	N/A
2001	86	N/A	4,406	N/A	N/A	N/A
2002	88	N/A	4,264	$209,200	$695,850	$905,050
2003	103	104	5,030	$273,625	$830,244	$1,103,869

[1] Includes health insurance and travel and lodging.

[Note: The number of senior judges available represents the pool of available senior judges, but does not necessarily reflect the number of senior judges actually appointed to trial courts to serve or the number of those receiving benefits. For the purposes of this fiscal note, it is assumed that all available senior judges work as senior judges in each calendar year.]

Added Expenditures: Under IC 33-23-3-5, the senior judges' per diem is paid from funds appropriated to the Supreme Court for judicial payroll. If the payroll fund is insufficient to pay the per diem payments, the Supreme Court may issue an order adjusting the compensation rate.

If the Supreme Court makes no adjustments in the senior judge per diem, then per diem expenditures for each day paid over 30 days could range between $142,000 and $195,700 based on the experiences of senior judges between CY 1999 and 2003. It is assumed that all available senior judges will work the minimum 30 days to qualify for health insurance. If some of these senior judges work fewer than 30 days and some work more than 30 days, then expenditures will be higher since more senior judges' days will be paid at the higher rate.

Illustration of Added Expenditures for Senior Judges Based on Data for 1999 through 2003.

	1999	2000	2001	2002	2003
Average Days Worked	52	50	51	48	49
Days Worked Over 30 Days	22	20	21	18	19
Added $100 Per Day Per Judge	$2,200	$2,000	$2,100	$1,800	$1,900
Number of Senior Judges	66	71	86	88	103
Added Expenditure	$145,200	$142,000	$180,600	$158,400	$195,700

PTRC/Homestead Credit Provisions: Property Tax Replacement Plus Homestead Credit Caps: Currently, the state pays property tax replacement credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under the bill, the total appropriation for PTRC and Homestead Credits would be capped in FY 2006 and FY 2007 at $2,028.5 M in each year. The appropriation amount is the same as the estimated expenditures for CY 2005 under current law.

State Credit Savings- Under current law concerning PTRC and Homestead Credit distributions, without the cap in this bill and using the school general fund levy increase that would result from the school formula portion of this bill, it is estimated that the total state cost of PTRC and Homestead Credits would be about $2,179 M in CY 2006 and $2,313 M in CY 2007 or $2,079 M in FY 2006 and $2,224 M in FY 2007.

The fiscal year appropriations in this bill are lower than the estimated full cost of the credits by about $50 M in FY 2006 and $195 M in FY 2007.

The bill requires credit percentages to be reduced if the statutory percentages would cause the cost of the credits to exceed the appropriation.

Payment Delay Reduction: School corporations receive 12 tuition support payments per year from the state. One of these 12 payments was delayed in FY 2002.

The state currently makes six PTRC/homestead credit distributions to county treasurers each calendar year from the Property Tax Replacement Fund. Under HEA 1001-2001, the May 2001 distribution was delayed until July 2001. Under HEA 1001-2002(ss), the May-July delay was extended to all years beginning in CY 2002. The payment that was moved is equal to 16.6% of the total annual payment. The original delay in 2001 moved one payment from FY 2001 to FY 2002. The 2002 legislation continued the delay of one payment from one fiscal year to the next for all following years.

This bill would require the state Budget Agency to make early payments of tuition support and PTRC/homestead credits in order to reduce the payment delay balances by 50% over the biennium. If there are insufficient balances to fund payments equal to 50% of the delay balance, the Budget Agency may reduce the percentage that is to be repaid under this provision. The percentage of repayment must be the same for both tuition support and for PTRC/homestead credits.

Based on the school funding formula in this bill, an early distribution of 50% of the tuition support payment delay balance would equal about $156.5 M. Based on the appropriations for PTRC and homestead credits in this bill, an early distribution of 50% of the PTRC/homestead credit payment delay balance would equal $168.4 M. The total early distributions of 50% of both delay balances is about $324.9 M.

PTRC Intercept Provisions: A holdback of PTRC would be triggered if a county owes the state for juveniles who have been sent to a Department of Correction (DOC) juvenile facility. A county from which a juvenile has been committed to a DOC juvenile facility is required to partially reimburse the state for housing the juvenile in a DOC facility

Currently, the state must forward bills to the counties every six months. This bill would require the billings to be made quarterly. Under the proposal, if a county does not pay the account within six months after it has been forwarded to the county auditor, the State Auditor would reduce the next distribution of PTRC to the county and withhold the amount owed on the account, reducing the amount that would be owed to the state.

Under this provision, if a county has an outstanding balance for juvenile offender maintenance on June 30, 2005, the county and the state Budget Agency would be required to attempt to enter into a repayment agreement. If the agreement is not signed before August 15, 2005, then the auditor of state would withhold the amount owed the state from PTRC distributions to the county. The money would be withheld in equal amounts from PTRC payments in FY 2006, FY 2007, and FY 2008. If the state withholds PTRC under this provision, only the county unit's share of the state PTRC would be reduced by the amount withheld.

According to the State Budget Agency, as of March 18, 2005, 80 counties had outstanding balances totaling $100 M. Under current law, the per diem billed to counties by the state is one-half of the cost of housing juveniles in juvenile facilities.

The bill also changes the statutory per diem amount to $60 per day beginning in FY 2006. Based on FY 2004 expenditures, changing the amount billed to counties that commit juveniles to DOC facilities to $60 per day represents a reduced county obligation of $10.38 M annually.

The following table lists each of the counties and their balances under existing reimbursement provisions.

County	Ending Balance		County	Ending Balance	
Adams	$	64,782	Kosciusko	$	175,577
Allen	$	8,373,555	Lagrange	$	40,347
Bartholomew	$	78,455	Lake	$	4,146,857
Benton	$	27,234	Laporte	$	222,855
Blackford	$	47,767	Lawrence	$	258,301
Boone	$	52,423	Madison	$	545,089
Brown	$	33,061	Marion	$	62,584,193
Carroll	$	53,870	Marshall	$	25,155
Cass	$	157,841	Martin	$	19,205
Clark	$	797,937	Miami	$	783,794
Clay	$	50,877	Monroe	$	159,999
Clinton	$	846,993	Montgomery	$	139,121
Dearborn	$	91,655	Morgan	$	132,274
Decatur	$	97,483	Noble	$	621,660
Dekalb	$	456,180	Ohio	$	11,864
Delaware	$	184,351	Owen	$	75,900
Dubois	$	88,577	Parke	$	11,870
Elkhart	$	2,526,492	Perry	$	10,955
Fayette	$	137,294	Porter	$	2,969,777
Floyd	$	319,731	Posey	$	17,040
Fountain	$	71,706	Putnam	$	12,273
Franklin	$	7,218	Randolph	$	29,995
Fulton	$	26,254	Ripley	$	46,573
Gibson	$	2,322	Scott	$	54,382
Grant	$	1,255,211	Shelby	$	83,849
Greene	$	58,718	Starke	$	839,158
Hamilton	$	209,651	Steuben	$	155,067
Hancock	$	65,499	St. Joseph	$	5,983,388
Harrison	$	39,486	Sullivan	$	25,367
Hendricks	$	627,449	Tippecanoe	$	1,024,056
Henry	$	23,050	Tipton	$	13,398
Howard	$	144,610	Vanderburgh	$	698,956
Huntington	$	188,909	Vigo	$	289,175
Jackson	$	38,395	Wabash	$	160,088
Jasper	$	81,333	Warrick	$	134,976
Jay	$	40,419	Washington	$	5,208
Jefferson	$	23,049	Wayne	$	212,136
Jennings	$	83,133	Wells	$	106,062
Johnson	$	207,820	White	$	11,864
Knox	$	296,410	Whitley	$	25,376
			Statewide Total	**$**	**100,840,378**

New Courts and Magistrates – This bill would permit the judges of the Madison Superior Courts to appoint one new magistrate and the judge of the Perry Circuit Court to also appoint one new magistrate. These appointments would be effective July 1, 2005. One new superior court would be created in Vigo County effective January 1, 2006. The added costs to the state over the next four fiscal years is shown below.

County	Court/ Magistrate	Effective Date	FY 2006	FY 2007	FY 2008	FY 2009
Madison	One Magistrate	Jul 1, 2005	$94,394	$94,394	$94,394	$94,394
Perry	One Magistrate	Jul 1, 2005	$94,394	$94,394	$94,394	$94,394
Vigo	One Court	Jan 1, 2006	$70,353	$140,706	$140,706	$140,706
Added Expenditures			$259,141	$329,494	$329,494	$329,494

The estimated costs for a 12-month period are listed in the following table.

Cost Component	Source of Computation	Judge	Magistrate
Salary	Specified in statute	$90,000	$72,000
Life Insurance	0.36% of Salary	$324	**$259**
Health, Dental, and Vision	Blended rate (estimated by the State Budget Agency)	**$8,291**	$8,291
Social Security	7.65% of salary	$6,885	$5,508
Disability Insurance	2.28% of salary (estimated by State Budget Agency)	$2,052	$1,642
Judges Retirement Fund	35% of Salary	$31,500	
PERF	7% of salary		$5,040
Leave Conversion	Estimated by State Budget Agency	$654	$654
Judicial Center	Includes materials & postage, but not possible staffing	$1,000	$1,000
Total Cost for New Court:		**$140,706**	**$94,394**

Explanation of State Revenues: *Professional Standards Board:* Under the bill, the fee revenue for teacher licensing would be placed into the Professional Standards Fund, and no longer placed into the Professional Standards Board Licensing Fund established by P.L. 224-2003. Effective January 1, 2002, teacher license fees are $35. The limited license fee is $35, and the fee for a substitute certificate is $15. In FY 2004 the Board collected $1.07 M in teacher license revenue.

Integrated Steel Mill Equipment Property Tax Valuation: The state levies a tax rate for State Fair and State Forestry. The increase in the AV base under this bill would similarly change the property tax revenue for these two funds. The increase would be minimal.

Earned Income Tax Credit (EITC) Extension: The current EITC is equal to 6% of the Federal Earned Income Credit (EIC), but is scheduled to sunset on December 31, 2005. The bill changes the sunset date for the EITC to December 31, 2011. Since the extension of the EITC would begin in tax year 2006, the revenue impact of the extension would begin in FY 2007. It is estimated that the annual revenue loss to the Individual Adjusted Gross Income (AGI) Tax could potentially be $49.7 M in FY 2007, $52.0 M in FY 2008, and $54.4 M in FY 2009.

Under current statute (with the December 31, 2005, sunset date), the EITC is estimated to reduce AGI Tax revenue by $45.4 M in FY 2005 and $47.5 M in FY 2006, with no revenue loss beginning in FY 2007. The FY 2005 and FY 2006 revenue loss is attributable to credits claimed for purposes of tax years 2004 and 2005, respectively. State tax return data for 2003 indicates that the EITC has very little impact on withholdings during the tax year due to advanced credit payments. Federal income tax data for tax year 2002 indicates that the federal EIC was claimed by 414,869 federal income tax filers residing in Indiana. This total was 11.0% above the 2001 total. The credits claimed in 2002 totaled about $692.0 M, increasing by about 13.2% over 2001 credits claimed. Annual growth in credits claimed by Indiana filers averaged 4.6% from 1996 to 2002.

Lake County Income Tax Credit: The bill requires payment to the state in FY 2006, FY 2007, and FY 2008 by Lake County, East Chicago, Gary, and Hammond for property tax circuit breaker credits claimed against state income taxes in 2001, 2002, and 2003, but not reimbursed in subsequent years pursuant to current statute. Amounts for the unreimbursed credits would be deducted from supplemental Riverboat Admission Tax payments made under current statute from the Property Tax Replacement Fund (PTRF). It is estimated that the reimbursement plan would result in an increase to the PTRF totaling about $6.4 M annually in FY 2006, FY 2007, and FY 2008. This is based on income tax return data indicating that credits totaled approximately $5.4 M in 2001; $7.1 M in 2002; and $6.8 M in 2003.

The bill also provides that the reimbursement of the annual cost of the property tax circuit breaker from actual distributions of Riverboat Admission Tax to Lake County, East Chicago, Gary, and Hammond is accounted for in determining the annual supplemental Riverboat Admission Tax payments made to these local units. This provision would begin with supplemental payments made to Lake County, East Chicago, Gary, and Hammond in FY 2006. Based on prior year property tax circuit breaker credits this would be approximately $6.4 M annually.

Background: Current statute provides for an individual Adjusted Gross Income (AGI) Tax credit for property taxes paid by low-income homestead owners in Lake County (taxpayers whose earned income is less than $18,600). The entire cost of the tax credit is to be reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to Lake County (one-half of the cost), and to East Chicago, Gary, and Hammond (one-sixth of the cost each).

Internal Revenue Code Reference Update: The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2005. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2003. The bill would affect tax years beginning with tax year 2004 as a result of the following federal acts:

(1) Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 (P. L. 108-27).
(2) Military Family Tax Relief Act (MFTRA) of 2003 (P. L. 108-121).
(3) Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P. L. 108-173).
(4) Working Families Tax Relief Act (WFTRA) of 2004 (P. L. 108-311).
(5) American Jobs Creation Act (AJCA) of 2004 (P. L. 108-357).

It is important to note that current statute provides for an addback of federal bonus depreciation allowances claimed during the taxable year for federal income tax purposes so any references to this provision in the above acts will not affect the Indiana tax base. The bill specifies that this addback includes the 50% bonus depreciation allowance enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003. In addition, the bill provides for addbacks of the Section 179 property deduction in excess of $25,000 enacted in the JGTRRA and extended under the American Jobs Creation Act of 2004; and the deduction for domestic production activities enacted in the AJCA. The estimated revenue impact of these federal acts is summarized in the table below with a general explanation of the provisions following the table.

Provisions (Revenue Impact in $M)	**FY 2005**	**FY 2006**	**FY 2007**
Military Family Tax Relief Act of 2003			
(1) National Guard Travel Expense Deduction	**(0.3)**	**(0.4)**	**(0.4)**
Medicare Prescription Drug, Improvement and Modernization Act of 2003:			
(2) Health Savings Account Deduction & Exclusion	**(0.8)**	**(1.1)**	**(1.3)**
Working Families Tax Relief Act of 2004			
(3) Educator Expense Deduction	(0.8)	(0.9)	(0.2)
(4) Clean-Fuel Vehicle Deduction	(0.2)	(0.1)	0
(5) Corporate Computer Contribution Deduction	(0.8)	(0.5)	(0.1)
(6) Expensing Environmental Remediation Costs	(1.6)	(0.9)	0
Subtotal	**(3.4)**	**(2.4)**	**(0.3)**
American Jobs Creation Act of 2004			
(7) Repeal of Extraterritorial Income Exclusion	1.4	5.6	15.4
(8) 85% Foreign Source Dividend Deduction	11.9	(5.1)	(8.4)
(9) S-Corporation Tax Treatment	(0.1)	(0.2)	(0.3)
(10) Business Tax Incentives and Miscellaneous Business Provisions	(2.2)	(2.6)	(2.4)
(11) Revenue Provisions	5.6	10.0	12.7
Subtotal	**16.6**	**7.7**	**17.0**
Total Impact on State Revenue	**12.1**	**3.8**	**15.0**

(1) Creates an above-the-line deduction for travel expenses of National Guard troops and reservists, provided the travel exceeds 100 miles and requires an overnight stay. The deductible expenses may not exceed the general federal per diem rate applicable to the particular locality.

(2) Creates an above-the-line deduction for employee contributions to the employee's Health Savings Account (created by the Act); and creates an exclusion from the employee's gross income for employer contributions

to the employee's Health Savings Account.

(3) Extends through tax year 2005, the above-the-line deduction for qualifying expenses incurred by educators for classroom materials (which expired after tax year 2003 under prior law).

(4) Provides for the full value of the existing above-the-line deduction for clean-fuel vehicles placed in service in tax year 2005. Under prior law, the deduction was scheduled to be reduced by 50% for property placed in service in tax year 2005. Pursuant to current law, the deduction will be reduced by 75% for property placed in service in tax year 2006, and will expire after tax year 2006.

(5) Extends through tax year 2005, the corporate deduction for charitable contributions of computer technology or equipment to elementary and secondary schools, and public libraries (which expired after tax year 2003 under prior law).

(6) Extends through tax year 2005, the deduction for expenses relating to the cleanup of hazardous substances in certain qualified areas (which expired after tax year 2003 under prior law).

(7) Phases out the exclusion from gross income for extraterritorial income a U.S. business receives from sales of goods it produces domestically and sells abroad either directly or through a subsidiary. The phase-out of the exclusion begins in tax year 2005 and is generally complete beginning in 2007.

(8) Provides for a one-time deduction from gross income for a U.S. corporation that receives qualified dividends from a foreign corporation it controls, generally, during tax year 2004 or 2005. The deduction is equal to 85% of the amount of qualified dividends paid during the allowed time period. The dividends must be reinvested in the U.S. to fund worker hiring and training, infrastructure, research and development, capital investments, or financial stabilization of the corporation.

(9) Provisions relating to tax treatment of S-corporations, including: (a) increasing the maximum allowable shareholders from 75 to 100; (b) treating family members as one shareholder for purposes of an S-corporation; and (c) permitting IRAs to hold shares in a bank that is an S-corporation.

(10) Provisions modifying certain depreciation and accounting rules, and treatment of certain business income and expenses, including: (a) acceleration of the recovery period for certain leasehold and restaurant building improvements; (b) deduction for certain reforestation costs; and (c) 75% first year expensing (in lieu of annual depreciation deductions) of capital costs incurred by small business refiners to comply with the diesel fuel sulfur controls imposed by the U.S. EPA.

(11) Provisions that increase a taxpayer's federal adjusted gross income or taxable income, including limits on: (a) expatriation of income; (b) deductions for property leased to tax-exempt entities; (c) certain transfers of partnership losses; (d) deductions for charitable contributions of intellectual property; and (e) deductions for certain entertainment expenses relating to use of company aircraft.

BMV Technology Fund: This section removes the expiration dates for collection of a BMV service charge. Although the charge was to expire in 2003 by statute, the BMV has continued to collect and deposit the $0.50 into the Motor Vehicle Technology Fund. This part will have no fiscal impact.

Natural Resources Commission: The bill provides that the Natural Resources Commission, as opposed to the

DNR, may adopt rules to establish fees for programs, licenses, inspections, and facilities of the DNR. This provision will have little, if any, impact because the Commission currently approves fees proposed by the DNR.

Abandoned Property Fund: This bill provides that the balance of the Abandoned Property Fund (AP Fund), less deductions, shall be transferred by the Treasurer of State to the state General Fund. Under current law, the Treasurer would transfer the balance of the fund, less deductions, to the Common School Fund.

The balance of the AP Fund at the close of FY 2004 was approximately $103 M, and approximately $70 M was transferred to the General Fund (under P.L. 224-2003). As of January 31, 2005, the Treasurer's office reported that there was approximately $30 M to be transferred to the General Fund on June 30, 2005. Several demutualized insurance firms have reported unclaimed shareholder proceeds. There are 3 to 5 more firms that will be reporting. Since it unknown when these firms will report, or the exact amount of funds they will be reporting, it is estimated that the transfer to the General Fund on June 30, 2005, will be approximately $30 M.

The bill also requires that money from certain illegal gambling debts recovered in civil actions initiated by county prosecutors and proceeds from the sale of certain abandoned vehicles are to be deposited in the state General Fund. These proceeds are currently deposited in the Common School Fund.

Background: From June 30, 2000, to June 30 2003, approximately $25 M to $30 M was transferred from the Abandoned Property Fund to either the Common School Fund or the General Fund. Prior to June 30, 2003, the balance of the AP Fund above $500,000 was transferred to the Common School Fund. P.L. 224-2003 required that the balance above $500,000 be transferred to the General Fund on June 30 of 2003, 2004, and 2005.

Under IC 32-34-1-34(f), interest accrued on property in the Abandoned Property Fund is deposited in the state General Fund.

P.L. 224-2003 also decreased the amount of time in which unclaimed property reports from demutualized insurance firms are reportable as unclaimed property. Prior to this change, unclaimed shareholder proceeds from the restructuring of a mutual insurance firm were reportable to the state as unclaimed property five years after the restructuring event. P.L. 224-2003 changed the law so that unclaimed shareholder proceeds may be presumed abandoned and reportable to the state five years after the insurer's last contact with the policyholder or five years after the mutual insurance company's restructuring.

Explanation of Local Expenditures:

Juvenile Incarceration: The bill changes the statutory per diem amount to $60 per day beginning in FY 2006. Based on FY 2004 expenditures, changing the amount billed to counties that commit juveniles to DOC facilities to $60 per day represents a reduced county obligation of $10.38 M annually.

Pension Provisions: Summary of Local Fiscal Impact of PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% for those who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be $5 monthly. Current statute has no provision for a COLA in CY 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $23.5 M. This would result in an additional annual funding requirement of about $1.78 M (representing approximately 0.07% of payroll) over what is provided for in current statute.

Summary of Local Budget Impact of PERF COLA: Although a COLA for 2006 is not provided in current statute, future PERF funding requirements are calculated *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact for the 2006 adjustment provided in this bill, under the contribution rate that is calculated for political subdivisions, is estimated to result in a reduced unfunded accrued liability of $2.8 M. This would result in a reduced annual funding requirement of about $220,000 (representing approximately 0.01% of payroll) under what would be required to support the assumed COLA.

Summary of Fiscal Impact of 13th Check Provision: The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2005 is $1.9 M. The increase in annual funding required is $150,000, representing 0.01% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above. (See *Explanation of State Expenditures* for details on the 13th Check provision.)

Explanation of Local Revenues:

Integrated Steel Mill Equipment Property Tax Valuation: Under current law and DLGF rules, business personal property, except for integrated steel mill and oil refinery equipment is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools," depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

Integrated steel mill and oil refinery/petrochemical equipment may be valued under a fifth pool depreciation schedule. The value of property in this pool is not subject to the 30% floor. Taxpayers who choose to use Pool 5 depreciation may not make any adjustments for abnormal obsolescence. A taxpayer may use Pool 5 to value all of their property if at least 50% of the taxpayer's total property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

Under current law, an integrated steel mill is defined as a producer of steel by processing raw materials in a blast furnace. Beginning with taxes paid in CY 2005, this bill would require that the blast furnace be located in Indiana to meet the definition and in order for a taxpayer to use Pool 5 depreciation.

There is currently at least one taxpayer, in Spencer County, that has its blast furnace in another state but used Pool 5 depreciation for its Indiana property. This taxpayer is located in a tax increment financing (TIF) district and currently receives an abatement on its personal property. The TIF was structured so that (1) 10% of the taxpayer's AV is not tiffed, and (2) the taxpayer is responsible for making payments to the redevelopment commission if the TIF proceeds in a year are insufficient to meet annual debt repayment obligations.

According to the county, through its consultant, the taxpayer's total net AV would increase by $9.7 M for taxes paid in CY 2005, $58.7 M in CY 2006, and $117.8 in CY 2007 if the use of Pool 5 is disallowed.

10% of the increased AV would be added to the tax base of all of the units that service the taxing district where the property is located. The rest would be tiffed. The addition of AV to the tax base would reduce the tax rate by about $0.0035 in CY 2005, $0.0200 in CY 2006, and $0.0390 in CY 2007. The resulting gross tax shift from all taxpayers to the steel taxpayer is estimated at $17,000 in CY 2005, $100,000 in CY 2006, and $200,000 in CY 2007.

The new tax rate would be applied to the revised tiffed AV to produce the TIF proceeds. Gross TIF proceeds would increase by an estimated $175,000 in CY 2005, $1.0 M in CY 2006, and $2.1 M in CY 2007. The taxpayer's debt guarantee payments would be reduced by this amount. The taxpayer made guarantee payments equal to $2.2 M in CY 2003 and $1.2 M in CY 2004. So far in CY 2005, the taxpayer has made $250,668 in guarantee payments. This amount is more than the 1st of two 2004 payments. The 1st 2004 payment was $221,781.

Total local property tax revenues, except for cumulative funds, would not be affected by this proposal. Cumulative fund revenue would rise by an estimated $2,500 in CY 2005, $15,000 in CY 2006, and $30,000 in CY 2007.

<u>Lake County Income Tax Credit:</u> The bill requires payment to the state in FY 2006, FY 2007, and FY 2008 by Lake County, E. Chicago, Gary, and Hammond for property tax circuit breaker credits claimed against state income taxes in 2001, 2002, and 2003, but not reimbursed in subsequent years pursuant to current statute. Amounts for the unreimbursed credits would be deducted from supplemental Riverboat Admission Tax payments made under current statute from the PTRF. It is estimated that the reimbursement from Lake County would total about $3.2 M annually in FY 2006, FY 2007, and FY 2008; with East Chicago, Gary, and Hammond each paying almost $1.1 M in each fiscal year. (See *Explanation of State Revenues* for discussion of tax credit and reimbursement.)

<u>Internal Revenue Code Reference Update:</u> The IRC reference update could potentially affect taxable income of individual taxpayers. However, the impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is likely to be minimal.

<u>Airport Development Zones:</u> The airport development zone is a property tax allocation area. Currently, these are authorized in Marion, Vigo, Vanderburgh, and Allen counties, and in Gary. The bill provides that the base AV computation for purposes of an airport development zone includes the net AV of tangible property for the assessment period immediately preceding the date the airport authority adopts its preliminary resolution designating the airport development zone, regardless of the date that the final resolution establishing the airport development zone is adopted by the airport authority. If an airport authority adopted a preliminary resolution, but either never adopted a final resolution or adopted one several assessment periods later so the AV value had changed, the base AV would relate to the adoption date of the preliminary resolution regardless of the second resolution.

Under existing law, except in Vanderburgh County, the incremental property taxes captured in the airport development zone are to be used for airport development projects in the zone. These taxes, upon determination of the airport authority, may be used for employee training for the project, with the remainder allocated to debt service. Any taxes exceeding the amount required for bond principal and interest payments, lease rental or lease payments, or reserve requirements are to be paid to local tax units. The bill provides for a third distribution before payment of excess incremental property taxes to local units.

<u>School Finance Provisions:</u> Property Taxes: The bill changes the maximum decrease in the property tax rate in the school formula from $0.03 to $0.8 for CY 2006 and 2007.

Transportation Fund: Schools would still be allowed to transfer money from other funds to offset the reduction in state transportation funds if it is not covered by an appeal. The amount of the transfers is about $32.9 M per year.

Textbook Reimbursement From Debt Service Fund: The bill allows public schools to increase their Debt Service Fund levy to pay for unreimbursed costs of providing textbooks to students who are eligible for the free or reduced lunch program. For 2005 the claims so far have been about $28.2 M and the distribution to public schools is about $19.6 M. Schools are allowed to file a supplemental claim but have not in recent years since their was no funding for the supplemental claim. The increase in debt service levies would be at least $8.6 M. Charter schools and nonpublic schools also participate in the free textbook program but do not have debt service levies to recover unreimbursed claims.

Referendum: The bill would allow Lafayette School Corporation to transfer $950,000, the amount of a referendum effective in 1986, from their General Fund to their Referendum Tax Levy Fund. The change would increase the property tax revenue for Lafayette School Corporation by about $950,000 annually.

Capital Project Expenditures for Insurance and Utilities: The bill continues to allow schools to pay for utilities and property and casualty insurance from the school's capital projects fund. The amount of utilities and insurance that can be paid from the fund is 5% of the prior year's school formula revenue. The annual maximum amount is about $118 M.

Local Homestead Credit Option: This provision would allow local civil taxing units and school corporations to provide additional homestead credits using revenue received under any law or from any individual or business entity.

The taxing unit would have to adopt an ordinance before December 31 of each year in order for the credit to be applied to property taxes paid in the following year. The ordinance must specify whether the credit would be applied at a uniform percentage or a uniform amount for each homestead. The ordinance would also have to specify the percentage or dollar amount to be applied.

This bill would reduce the net property tax levies on homesteads within the taxing unit's boundaries. The amount of net tax reduction would depend on the number of taxing units that adopt such an ordinance, and on the value of credits granted by each one.

These local homestead credits would be applied after all other deductions and credits. They would have no effect on the state's liability for PTRC or state homestead credits or on the county's liability for COIT-funded homestead credits in a county that provides them. There would also be no effect on total local revenues.

PTRC Intercept Provisions: See *Explanation of State Expenditures*.

State Agencies Affected: All.

Local Agencies Affected: All. Local civil taxing units; County auditors; Lake County, E. Chicago, Gary, Hammond. Counties with local option income taxes.

Information Sources: County auditor's abstracts; Local Government Database; Property tax return data; H.J. Umbaugh for Spencer County; OFMA Income Tax databases, Tax Years 2000, 2001 & 2002. Bob Walls, Department of State Revenue, (317) 232-2104. Tom Conley, Department of State Revenue, (317) 232-2107; Bob Lain, State Budget Agency, (317) 232-3471; Larry Stroble, Barnes and Thornburg, LLP, (317) 231-7248. U. S. Congress, Joint Committee on Taxation, http://www.house.gov/jct/tableofcnts.html. Internal Revenue Services, Statistics on Income, http://www.irs.gov/taxstats; Bob Hill, Professional Standards Board; State of Indiana, List of Appropriations July 1, 2003, to June 30, 2005; State of Indiana, HRM Detail Staffing Report November 4, 2004; Indiana State Budget Agency: BUDSTARS; Indiana Handbook of Taxes, Revenue, and Appropriations FY 2004; Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

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